



City of Carlsbad

Office of the City Manager

To the Honorable Mayor and City Council:

2007-08 BUDGET TRANSMITTAL

I am pleased to submit the FY 2007-08 Operating Budget and Capital Improvement Program for the City of Carlsbad. The combined budget totals \$219.9 million, with projected revenues of \$234.1 million. Of the total budget, \$187.1 million (85%) will be used to fund the operations of the City, while \$32.8 million (15%) will go toward the construction of capital improvements throughout Carlsbad. Our goal has been to prepare a comprehensive financial plan for services, programs, and capital projects that will assist the Council in the achievement of its vision for Carlsbad.

The FY 2007-08 budget was developed this year with the emphasis on creating a sustainable community through fiscal discipline. The City is approaching buildout and will be ushering in a new era focusing on maintaining the City's infrastructure rather than building it. It requires that we provide excellent services for the developing community today but also insure that the City is poised to make the transition and address the needs of a fully built out city in the near future. The FY 2007-08 Budget reflects the anticipation of these changes by using methods that fulfill the current demand while allowing for a smooth transition into a maintenance mode in the future.

Overall, the Operating Budget has increased by 9.0%. The increase is predominately due to the costs of adding 22 new personnel and legislatively mandated, but unfunded Storm Water and Wastewater Discharge Requirements. The total additional costs for the two unfunded programs will be approximately \$2.1 million in FY 2007-08. The budget also includes funding for over 118 capital improvement projects with new appropriations of nearly \$32.8 million. The City's total Capital Improvement Program budget contains approximately \$411.8 million to improve the City's roads, parks, water and sewer infrastructure and build civic projects through buildout.

A large portion of the capital program will expand the City's recreational venues with the addition of tennis courts and parking at Poinsettia Park, a new 18-hole municipal golf course – The Crossings at Carlsbad, the Alga Norte Park and Aquatics Center and building a Library Learning Center to permanently house the Adult Learning and Centro de Información programs. Finally, the City is working on numerous road segments that will greatly enhance its transportation system as well as water projects that will insure an adequate water supply for Carlsbad's residents and businesses. A large number of the resources in the operating budget will be dedicated to meeting the development schedule for these and many other projects contained in the Capital Improvement Program.

Carlsbad's economic position continues to be an enviable one. A relatively healthy local economy over the past five years provided the stimulus to attract additional revenue-generating sites to Carlsbad; adding to the City's strong and diversified revenue base. The City's assessed values are expected to increase by approximately 14% this year. Carlsbad's reputation as a tourist destination is also growing with many new hotels added in the recent past, generating over \$13.6 million in transient occupancy taxes.

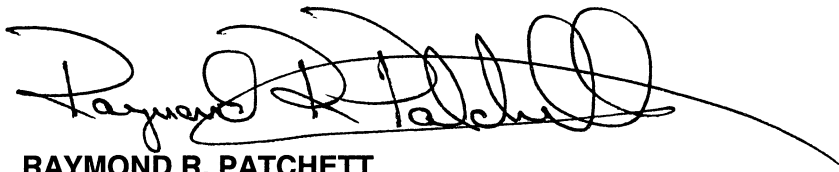


The State and U.S. economies continue to face challenges and this current economic slowdown is anticipated to affect the local economy in Carlsbad and has been taken into consideration in the revenue forecast.

One of the systems in place to keep the City financially strong is the Infrastructure Replacement Fund. This fund was set up to ensure that resources are available when needed to replace the City's streets, sidewalks, buildings and other infrastructure. The City of Carlsbad is relatively new, so it has not yet experienced the significant cost of replacing the infrastructure as it ages. We are just beginning to experience the high cost of major repairs on some of our older roads. The Infrastructure Replacement Fund will be used to accumulate funds and pay for the replacement of the City's infrastructure as needed. This year's budget allocation is approximately 6.5% of the General Fund revenues for a total of a \$7.9 million allocation for this program.

Over the City's past 50+ years, Carlsbad has continued to grow and prosper as a result of the vision and leadership of its City Council. The Council's commitment to their vision, and their willingness to provide the funding to achieve it, has resulted in a highly desirable City in which to live, work and play. The FY 2007-08 Operating and Capital budgets continue to provide for a high quality of life for current citizens, as well as laying the groundwork so that future generations will also be able to enjoy the substantial benefits of our community. Continuing to balance the desire to provide top quality services with slowing revenue growth and higher service costs will be the City's challenge in the years to come.

I would like to express my appreciation to the City Council for providing the direction and support that are crucial to the ability of the City to achieve its goals. I would also like to recognize the contributions of City staff for not only creating a successful operating plan and Capital Improvement Program, but also for their commitment to providing top quality services to all who live, work, and play in Carlsbad. Their efforts are critical to the City's ultimate success. I offer them my appreciation for a job well done.

A handwritten signature in black ink, appearing to read "Raymond R. Patchett", with a long horizontal flourish extending to the right.

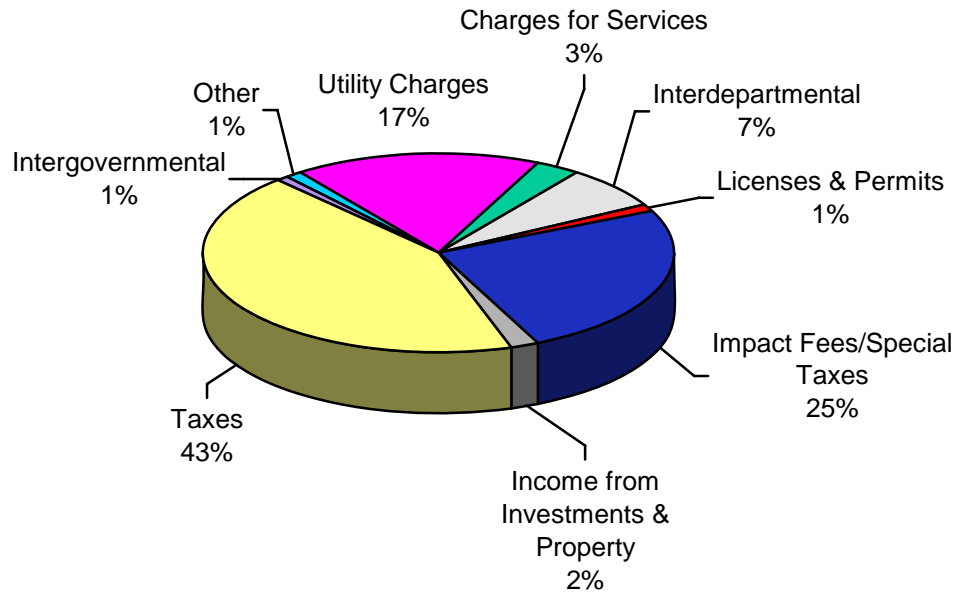
RAYMOND R. PATCHETT
City Manager

CITY OF CARLSBAD BUDGET HIGHLIGHTS

CITY OF CARLSBAD BUDGET HIGHLIGHTS FISCAL YEAR 2007-08

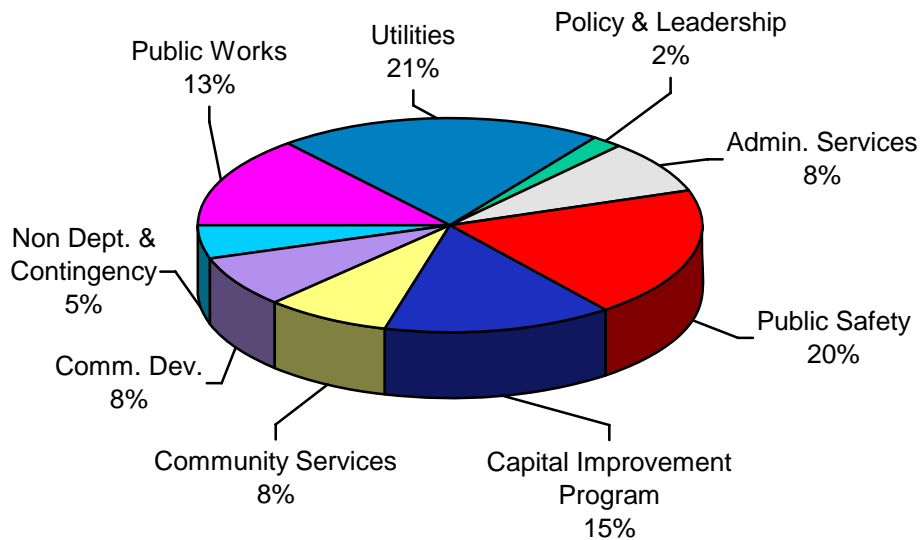
WHERE THE MONEY COMES FROM...

ESTIMATED REVENUES \$234.1 MILLION



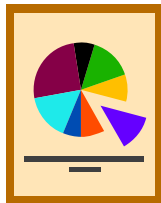
WHERE THE MONEY GOES...

ADOPTED BUDGET \$219.9 MILLION



CITY OF CARLSBAD BUDGET HIGHLIGHTS

The City's budget is comprised of two pieces; the operating budget and the capital improvement program budget (CIP). The CIP provides the funds to build the parks, roads, buildings, and other infrastructure of the City while the operating budget provides the money to staff and operate them. The operating budget totals \$187.1 million and is expected to generate \$190.1 million in revenues. The CIP contains the current year budget allocation of \$32.8 million and outlines approximately 118 future projects at a total cost of \$411.8 million through buildout of the City. Capital revenues for Fiscal Year 2007-08 are estimated at \$44 million. The capital projects include parks, civic facilities, as well as infrastructure needs anticipated for the future that are not expected to be constructed by developers.



The budget overview on the following pages will provide the reader with a good understanding of the budget process and the economic profile of the City as well as with a broad overview of the services and projects planned for the 2007-08 Fiscal Year. This section also addresses debt management, including a schedule of the outstanding bond issues. More detail on the City's numerous programs and projects can be found throughout the remainder of the document.

BUDGET PROCESS

The budget process for the City of Carlsbad begins in January each year, with a review and update of the City Council's five-year vision statements. Through the vision statements, Council defines and clarifies their vision of Carlsbad. The City Council also provides the City with their top 12 priority projects, which further defines their vision. The strategic goals for the City are developed next. These statements are reflected in the box on the right. The goals further define the methods used to achieve the vision and highlight areas where Council desires to place special emphasis during the year. Once the vision, goals and priority projects are developed, staff develops operational goals based on Council's direction. These operational goals are the basis for the development of the Operating Budget.

City of Carlsbad Strategic Goals

Balanced Community Development - A city that connects community, place and spirit, through balanced and economically sustainable land uses.

Citizen Connection And Partnership - A city that embraces community connectivity through the effective use of technological and interpersonal mediums.

Communication - Ensure that community members, Council and staff are well informed, continuing to be a more responsive government while providing a high level of citizen confidence in its government.

Environmental Management - An environmentally sensitive community by focusing on: conservation, storm water, sewage collection and treatment, solid waste, and cost effective and efficient use of energy including alternative energy sources.

Financial Health - Pursue and implement proactive strategies that support sustainable economic health and manage fiscal resources effectively.

Learning, Culture & Arts - Promote and support continuous learning, cultural opportunities and the arts within the community and the City organization.

Parks / Open Space / Trails - Acquire, develop and maintain a broad range of open space and recreational facilities that actively address citizen needs which are fiscally responsible, and are consistent with the General Plan and Growth Management Standards.

Top Quality Services - A city that provides exceptional services on a daily basis.

Transportation / Circulation - Provide and support a safe and efficient transportation system that moves people, services and goods throughout Carlsbad.

Water - Ensure, in the most cost-effective manner, water quality and reliability to the maximum extent practical, to deliver high quality potable and reclaimed water incorporating drought-resistant community principles.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

Carlsbad's Operating Budget is a tool that guides the achievement of Council's vision, goals and priority projects for the City. The budget allocates the resources, and sets the priorities for the programs offered by the City. Thus, it is an integral part of making Carlsbad a wonderful community in which to live, work, and play. In addition, the budget is a fiscally conservative balanced budget, to effectively sustain the community and essential City services far into the future.

ECONOMIC PROFILE

The **US economy** has experienced steady growth over the past several years. However, as of June 2007, the economy is now in a slow down period which is expected to last the rest of 2007 and into 2008. According to the Bureau of Economic Analysis the economy grew at an annual rate of 2.5% in the fourth quarter of 2006. This growth rate was revised upward by .3% from the "preliminary" estimates. The adjustment was due to a higher than expected increase in consumer spending, exports, Federal government

spending, and a reduction in imports, slightly offset by investment in inventories, equipment and software. According to preliminary estimates released by Global Insight and the UCLA Anderson Forecast in April 2007, real gross domestic product – a measure of economic activity – is expected to increase 2.1%, 1.7% and 2.5% in first, second and third quarters of 2007 respectively. For the fourth quarter of 2007, real GDP is expected to increase closer to 3% and it is forecasted that GDP for 2008 will average 3.25%. While the US economy is slowing, a recession is not anticipated by UCLA Anderson Forecast and other economic think tanks due to the strength in the job market. Most recessions are linked with significant cycles of job loss, which currently is not the case. In addition, because most Americans are employed, it is expected that the majority will be able to continue to pay their mortgages, segregating the subprime mortgage concern to a small percentage of the population.

While UCLA Anderson Forecast is not expecting a recession, there are some unknowns that may result in a higher risk potential. The housing market is expected to be slow but it is still unclear how slow it will be. With flattening housing prices, and in some areas, actual declines in housing prices, there may be more risk to the economic outlook as more defaults on mortgages occur. UCLA's economists also predict that there will be pressure on the Federal Reserve Board for more interest rate reductions during 2007 to compensate for inflation and the slow down in the economy.

California's economy has also slowed. California experienced four years of high home price appreciation which resulted in home affordability at an all time low throughout many areas of California, according to UCLA Anderson Forecast. Several entities were determined to continue to keep sales volumes high and relaxed credit standards in order to continue to sell homes. This resulted in the subprime mortgage market which is now part of the threat to the real estate market. Mortgage defaults are rising with the potential of high foreclosure rates during the summer of 2007. The government and lenders are working on bail-out procedures to reduce the number of foreclosures by working with the troubled borrowers to refinance their mortgages.



CITY OF CARLSBAD BUDGET HIGHLIGHTS

According to the UCLA Forecast, at the end of 2006, the high-end service sector jobs were able to compensate for the job losses in construction and financial services related to real estate. For 2007, UCLA Anderson Forecast (April 2007) is expecting the real estate sectors to continue to slow down the economy. Given this forecast, according to the UCLA Anderson Forecast:

“We expect to see job growth in California slow to below 1% through the middle of 2008, with growth in real personal income and real taxable sales slowing to just over 2% through this period. If the Professional/Business Services sector can sustain its momentum longer in 2007, we might see a milder slowdown; but if the carnage in subprime markets is more severe than we expect, job losses in Southern California could make things a bit worse. But the essential logic of the no recession forecast remains: while there’s some wiggle room on how weak real estate will be and how much other sectors will offset this weakness, there still is no other sector that looks poised to combine with real estate to generate enough job loss to cause a recession.”

Locally, the **San Diego economy** has slowed as well, according to several local economists, including University of San Diego (USD) economist Alan Gin. For the first six months of 2007, residential building permits were down 34% compared to the same period in 2006. The local unemployment rate rose to 4.6% compared to 4.2% in June 2006. According to Alan Gin, while consumer confidence still appears positive, the high gas prices, housing market and increases in foreclosures may impact consumers’ perspective in the future. A chart reflecting USD’s economic indicators is reflected below.



According to the UCLA Anderson Forecast, there are many new homes in the San Diego County area and builders are anxious to reduce their inventory, thus reducing the price of new homes. UCLA Anderson Forecast is predicting that new homes in San Diego area will see a price decline due to the builders’ angst to reduce inventory. For re-sales, it is anticipated that owners are not going to be as anxious to move and will wait for a good price for their home, thus the price for re-sales is expected to level off but not decline.

UCLA Anderson Forecast is predicting that building activity will slow through

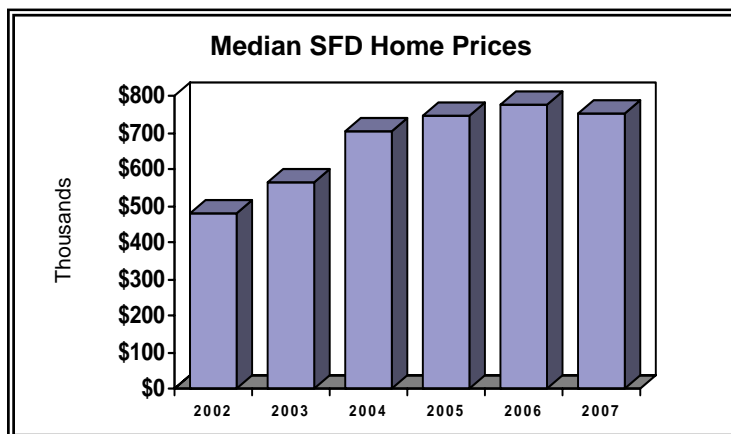
2007 with a slight rebound in 2008. Job growth is expected to slow as the leisure and hospitality sectors lose momentum in 2007 offsetting less of the job losses in construction and real estate sectors. In addition, the credit crunch is expected to continue to weaken home sales and an anticipated increase in foreclosures may impact home prices.

Carlsbad’s economy is tied closely to that of the San Diego region, although development patterns may differ. Carlsbad has experienced strong growth in FY 2006-07 in property and Transient Occupancy Taxes (TOT). For FY 2006-07, property taxes are expected to grow by 15% reflecting the continued escalation in housing prices during FY 2006-07, new development, as well as the return of \$1.8 million in property taxes that the State of California took from the City of Carlsbad during fiscal years 2004-05 and 2005-06. TOT, the City’s gauge of the tourism

CITY OF CARLSBAD BUDGET HIGHLIGHTS

industry, are expected to end Fiscal Year 2006-07 showing an 11% gain, with a large part of that coming from the reopening of a major portion of one of Carlsbad's premiere resorts as well as reflecting a full year of the West Inn and Suites which opened in May 2006. Sales taxes are slowing during FY 2006-07 due to the slower economy as well as a decline in auto sales, however, even with the slow down, it is anticipated that an additional \$700,000 will come in over FY 2005-06.

Carlsbad's residential real estate market has slowed significantly throughout FY 2006-07. The City expects to issue approximately 425 residential permits this year, a decrease from the 943 in the previous year. The number of permits is expected to decline due to a lack of supply and a slowing economy. There are a number of new residential communities under construction or in the final phases of development that will add to the residential housing stock in Carlsbad. The Villages of La Costa projects known as the Oaks North, the Greens and the Ridge are under construction, and will add approximately 970 single-family and 450 multi-family units. The Bressi Ranch area is almost complete with 523 single-family and 100 multi-family units developed. In addition, the Robertson Ranch area, which is expected to contain over 1,000 residential units, is finishing up its master plan. The completion of these master planned communities will signal an end to the large-scale residential developments in Carlsbad.



As the housing market has cooled, the housing prices have slowed as well. The median price for single-family homes in Carlsbad was \$777,000 for April 2006 compared to \$750,000 for April 2007 a decrease of 3.5%. The total assessed values in the City stand at over \$22 billion; an increase of nearly 58% over what they were just five years ago. With the new developments mentioned earlier starting to sell this year, the City has projected it will add about 2,117 more residential units and an

additional 3.7 million square feet of commercial/industrial development over the next five years. The City's residential housing stock is about 90% built out, with approximately 4,658 housing units remaining to develop.

Commercial and industrial development has been averaging 800,000 square feet per year. This is expected to remain about the same over the next five years to average 820,000 square feet per year with the large industrial developments including Carlsbad Raceway, Oaks North Industrial Park and the La Costa Town Center. Some of the major companies in town include the Gemological Institute of America, ViaSat, Invitrogen, Callaway, Taylor Made, Upper Deck, and many others.

Commercial development has brought much needed entertainment and shopping venues to citizens and visitors alike, as well as generating additional sales taxes to help pay for City services. Carlsbad is home to Car Country Carlsbad – an auto mall; the Carlsbad Premium Outlets – a specialty outlet center; Plaza Camino Real – a regional shopping mall; a Costco center; and the Forum at Carlsbad - a commercial center with upscale retail shops, restaurants and other commercial uses.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

Development has also enhanced Carlsbad's reputation as a destination resort for tourism. The City is host to a major family theme park: Legoland, and has two luxury resorts available for its visitors: the Four Seasons Resort at Aviara and the La Costa Resort & Spa. There are also a number of other quality hotels and motels in the City, with the most recent addition being the West Inn and Suites, which opened in May 2006.

The City of Carlsbad opened a municipal golf course in August 2007 which is expected to further enhance the tourism attractions the City offers. The municipal golf course, The Crossings at Carlsbad, is an 18 hole, destination golf course set in the rolling hills and canyons of Carlsbad. With ocean views, high quality golf experience, a first class restaurant and clubhouse, and linkages to hiking trails, The Crossings at Carlsbad will be a destination spot for golfers and non-golfers alike.

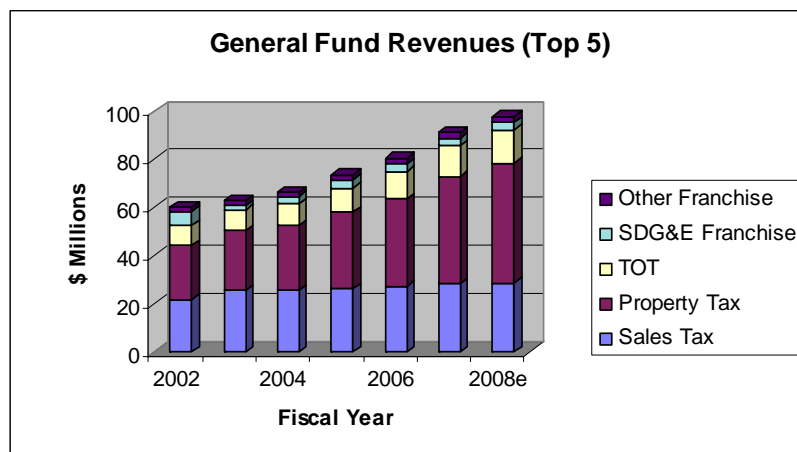
For the future, there are several new tourist-serving projects in development. The La Costa Resort has been developing up to 197 commercial resort villas on their site and part of the increases in TOT to date can be attributed to several of these villas coming on line. As they are phased in over the next several years, it is expected to add over \$1.4 million in TOT when completed. Two hotels near the airport are expected to open during Fiscal Year 2007-08. The two hotels are the Hampton Inn and Homewood Suites, located near the McClellan/Palomar Airport. They are expected to add 249 hotel rooms, bringing the total available hotel rooms in the City to about 3,700. These two new hotels are estimated to generate \$500,000 per year in TOT. In addition, a new project next to Legoland is currently under construction and is expected to bring on 350 hotel rooms and 350 timeshare units. This project is expected to be phased in over time, and is expected to generate an additional \$1.4 to \$1.7 million per year in TOT.

It is the Council's goal to ensure that the City remains in good financial health, and there are a number of steps the City has taken to attain that goal. One of these is the Growth Management Plan. This plan was adopted by the citizens to ensure that all necessary public facilities were constructed along with development. It also ensures that a financing plan is in place to pay for the facilities prior to the development of the property.

In addition to the Growth Management Plan, the City also prepares a long-term financial model for both the capital and operating needs of the City. With a growing city such as Carlsbad, it is imperative that we plan for the impacts of serving new development and operating new public facilities, as well as planning for the capital needed to build them. Thus, the City prepares a ten-year operating forecast for the General Fund, and a 20+ year Capital Improvement Program. As part of the Capital Improvement Program, the City annually calculates the amounts needed to pay for the various projects, and calculates the anticipated operating budget impacts. In this way, we can anticipate the effects of development from both a capital and an operating perspective.

One important initiative the City has undertaken to ensure its financial health, is the development of an Infrastructure Replacement Fund. With this fund, the City sets aside money on an annual basis for major maintenance and replacement of its infrastructure. Much of the City's infrastructure is relatively new; thus, the City has not felt the full impact of maintenance. By setting aside funds now, the citizens of Carlsbad can be assured that the proper maintenance and replacement, when needed, will be performed on streets, parks, and many facilities for which the City is responsible.

CITY OF CARLSBAD BUDGET HIGHLIGHTS



Carlsbad's current economic position is an enviable one. A relatively healthy local economy over the past ten years provided additional revenue-generating sites that allow the City to continue to add new facilities and services for the citizens. The City hosts three regional shopping areas within its boundaries: a large regional mall, an outlet center and a high-end retail center in the southern part of town

called The Forum. Together, these sites contribute approximately \$4.5 million annually to the City's sales taxes. The City's Auto Mall generates another \$6.0 million per year in sales taxes for the City. Legoland, a family theme park, contributes to the City's sales tax base and stimulates the development of new hotels in the area. The effect of the new development and the demand for housing in Carlsbad is an increasing tax base. The four major revenue sources for the City: property taxes, sales taxes, transient occupancy taxes (TOT) and franchise taxes, are expected to provide \$91 million, or 80%, of the City's General Fund revenues in FY 2006-07. These taxes and fees are the major source of funding for most of the City's services, and allow the City to live up to its reputation as one of the premier locations in San Diego County.

The City's base sales taxes are projected to grow by 1.8% for Fiscal Year 2007-08 due to the slowdown in the economy. While the growth in housing prices is expected to moderate due to the cooling of the real estate market, there is a lag with the property tax revenue and therefore, according to the County Assessor, the City should expect property tax revenues to increase by over 11% for FY 2007-08. New building permits are expected to continue to slow and the development related revenue items have been reduced accordingly for Fiscal Year 2007-08. And finally, tourism is expected to continue to be strong, with TOT receipts projected to grow by over 6% in the future, with the addition of more available rooms. More information on all of the City's revenues and programs can be found in the later sections of this document.



State of California - In addition to the soft housing market and a slow economy, the State of California's fiscal problems also cast a shadow on the City's economic future. The State of California has been in a severe fiscal crisis for a number of years. Through a variety of loans, one-time revenues, interfund borrowings and raids on city, county and special district funds, it has been able to manage its cash

flows and stay solvent. However, more drastic measures will be needed for the State to finally get its budget in balance.

According to the Legislative Analyst's Office (LAO), the State is facing significant deficits in future years despite the stronger revenues seen in the past few years. The LAO's analysis of the Governor's budget proposal for 2007-08 reflects that the State is proposing to use a significant portion of their fund balance to cover their operating shortfall, and \$3 to 5 billion shortfalls are expected to exist in each of the next several years. According to the LAO, the ongoing budget shortfalls result from the high reliance in the near term on one-time savings. The State has balanced its budget by taking City money in the past, and the risk is that they may find a way to make it happen again.

As a result of the continued attacks on cities' revenues, a coalition of cities, counties and special districts supported Proposition 1A which was approved by the voters in November 2004. The

CITY OF CARLSBAD BUDGET HIGHLIGHTS

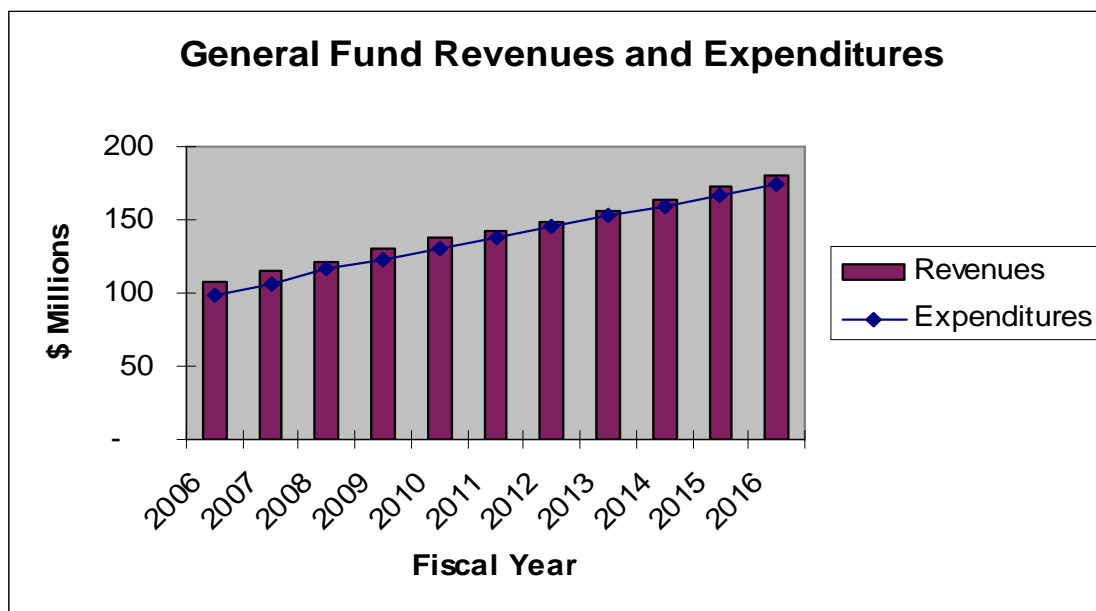
measure included a provision to help prevent the Legislature from reducing the combined property tax shares of cities, special districts, and the county, except to borrow the funds on a temporary basis to address a “severe state fiscal hardship”.

Looking Forward

As stated earlier in this document, the City prepares ten-year forecasts for the General Fund each year in order to understand the effects of actions taken today on the City’s future. The City has experienced remarkable revenue growth over the past ten years due to the development of the majority of its commercial sites. The future will bring a few more commercial sites but at a slower pace, while residential development will continue for a number of years. There are also quite a few City facilities – mainly parks and civic facilities – planned in the future to serve the growing population. The new facilities will add operating costs to the City’s General Fund budget as they are completed and opened for use.

In addition, a number of other factors, including rising health care costs, have created upward pressure on expenditures, especially over the past several years. These factors have been incorporated into the General Fund forecast shown on the following page and projected over the next ten years. While no forecast is ever totally accurate, it does represent a likely scenario given the assumptions on which it is built.

This forecast assumes that revenue growth will continue at a moderate pace in 2007-08 and into the future. To project the expenditures, it includes all known personnel costs, most of which have been negotiated with the employee groups through December 2007. The City will be negotiating labor contracts with all four groups during FY 2007-08.



The forecast assumes 10% annual increases in health care costs in the near future, slowing to 5% annually in the distant future. It also assumes personnel growth (new positions) to remain rather flat at no more than 2% per year. Cost of living increases between 3% and 5% have been added to personnel costs. Pension plan costs are anticipated to remain essentially at current levels. It assumes that the contribution from the General Fund to the Infrastructure Replacement Fund is 6.5% of General Fund revenues. And finally, it includes estimated operating costs for

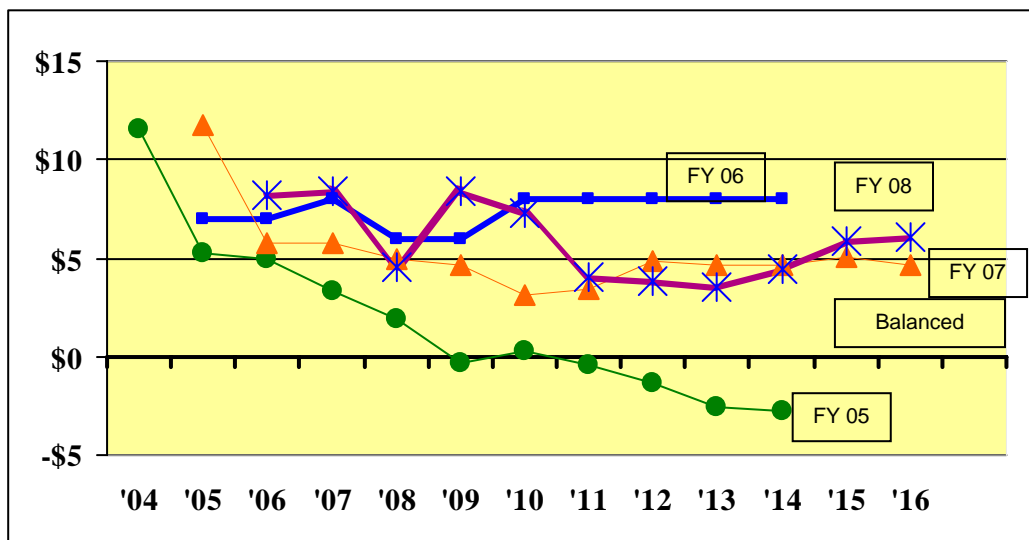
CITY OF CARLSBAD BUDGET HIGHLIGHTS

all capital projects in the timeframes shown in the Capital Improvement Program (CIP). One of the biggest assumptions in the forecast is that services remain about the same.

The results show that the General Fund is balanced into the future, with a slight surplus in each year of 2% to 7% depending on which year. This achieves the goal set out by Council to maintain a balanced budget.

The situation was different several years ago when the forecast projected that the City was headed for deficits unless corrective measures were taken. For the past several years, Council and staff have worked to bring the forecast back into balance and keep it balanced into the future. Through a combination of enhancing revenue sources and finding more efficient methods of providing services (and with the help of a strong local economy), the City was able to turn the forecast around from heading into deficits to a healthy balance.

**City of Carlsbad
10-Year Financial Forecast**



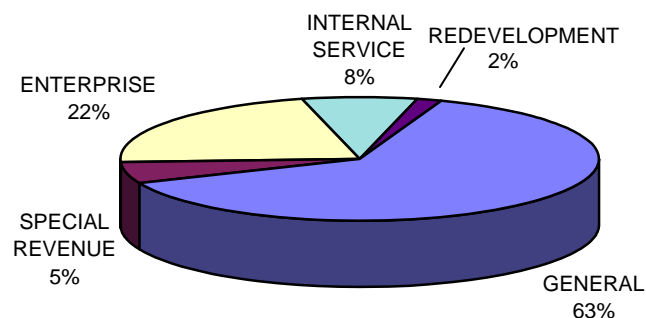
The ability to understand the future impacts of both changes in revenue sources as well as program needs is crucial to ensure that the City has the funds available to make its future plans come true. The General Fund forecast is a tool available to the City to achieve the goal of managing its fiscal resources effectively and monitoring the achievement of sustainable economic health for the City of Carlsbad.

OPERATING BUDGET

Revenue Projections by Fund

The City's operations are divided into various funds. Each fund has been established because of certain restrictions placed on the use of the resources received by that fund. Any unrestricted funds are placed in the General Fund. Estimated revenues for the City's five fund types are shown on the accompanying graph.

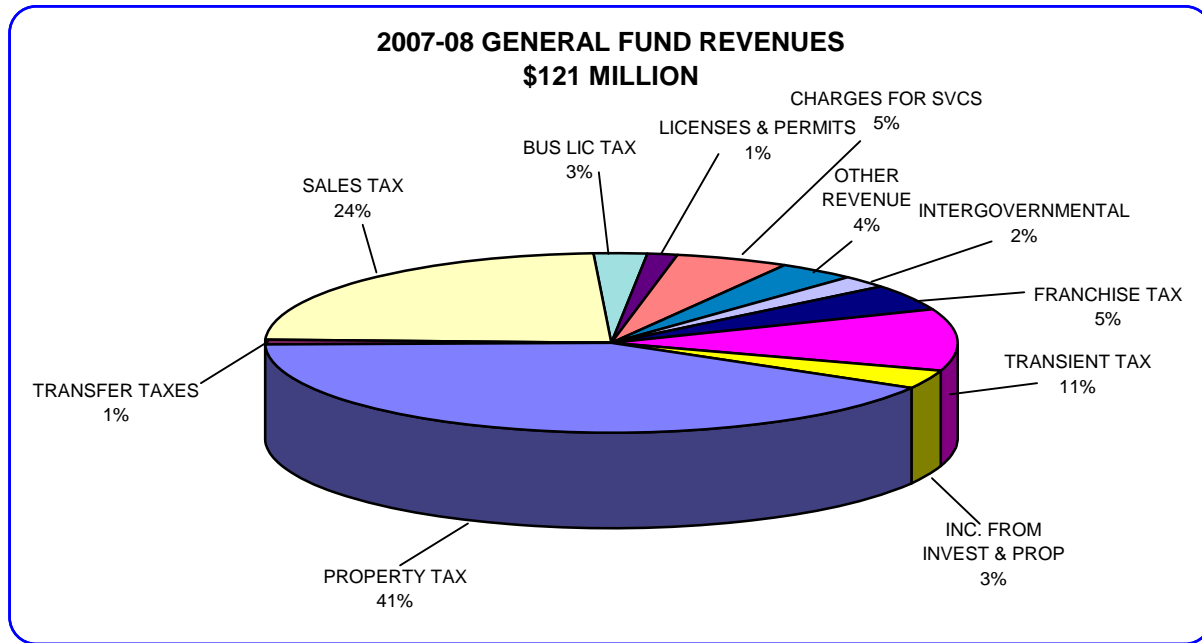
**2007-08 OPERATING REVENUES
BY FUND TYPE
\$190.1 MILLION**



CITY OF CARLSBAD BUDGET HIGHLIGHTS

General Fund

The fund receiving the largest slice of the revenues is the General Fund, with estimated revenues of \$121 million. The General Fund pays for most of the City services available to City residents. The majority of the General Fund revenues (85%) are derived from taxes. The graph below illustrates the sources of revenue to the General Fund.



Property taxes, at \$50 million, are the largest General Fund revenue. The City receives only about 18% of the property taxes paid by its citizens. The remainder of the tax goes to the school districts, the State, and other various agencies.

Sales tax is the second largest source of revenue for the General Fund. Sales taxes are estimated to bring in \$28.5 million for Fiscal Year 2007-08. Automobile and department store sales are the most significant contributors to the category of sales tax.

Transient occupancy taxes (hotel taxes) are estimated at \$13.6 million and are the third largest revenue source for the City. Franchise taxes, transfer taxes, and business license taxes make up the remaining \$9.9 million in tax revenues collected by the City.

Intergovernmental revenues are revenues collected by the State and other governmental agencies and allocated to the City based on a formula. Examples of intergovernmental revenues include motor vehicle license fees, State mandated cost reimbursements, and homeowner's exemptions. Intergovernmental revenues are estimated at \$2.9 million for the upcoming year.

Licenses and permits account for \$1.6 million of the General Fund revenues and include building permits and other development-related permits. Charges for services are estimated to be \$6.2 million and include fees for engineering, planning, building, recreation, and ambulance services.

Other revenue sources include charges collected from other departments, fines and forfeitures, and miscellaneous revenues. Those sources total \$4.4 million. Income from investments and property are estimated at \$3.9 million.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

Special Revenue Funds

Revenues from Special Revenue funds are estimated at \$10.1 million for 2007-08. Funds collected in this category are legally restricted to specified purposes. Examples of funding resources include donations, grants, and special assessments. The types of functions supported with Special Revenue funds include programs such as Section 8 Housing Assistance, Housing Trust Fund, Community Development Block Grants (CDBG), and maintenance and assessment districts.

Enterprise Funds

Enterprise funds revenues make up the second largest revenue group, totaling \$40.6 million. Enterprise funds operate similar to a business in that they charge fees to cover the cost of their services. Examples of the City's enterprises include water and wastewater services and solid waste management.

Internal Service Funds

Internal Service fund revenues, projected to be \$14.7 million, are derived from charges to the City programs that benefit from the services rendered. The funds collected must be used specifically to support the internal service. Examples of the City's Internal Service funds include Liability, Health Insurance, Information Technology, Workers' Compensation, and Vehicle Maintenance and Replacement.

Redevelopment Agency

Redevelopment Agency revenues, estimated at \$3.6 million, come mainly from property taxes collected within the redevelopment area. Carlsbad has two redevelopment areas. The original area consists of 204 acres located in the downtown "Village Area" of the City. The second area encompasses the land on which the Encina power plant is located as well as additional parcels south of the plant. Funds collected within the redevelopment areas must be used to repay the debt incurred and administration of the Agency.

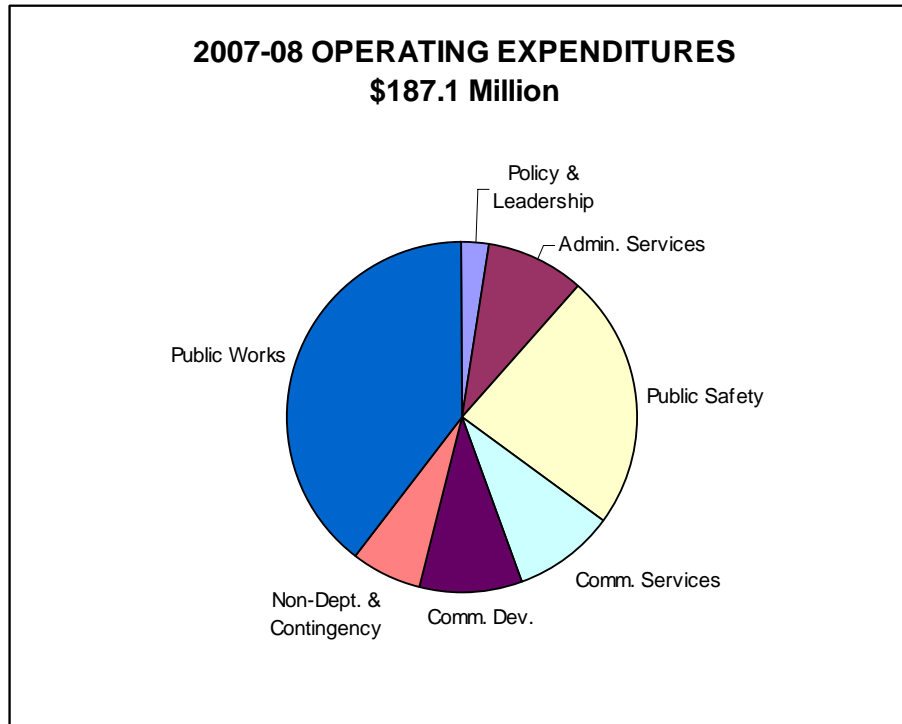
Operating Budget by Program

The total operating budget for the City equals \$187.1 million, which is 9% more than the 2006-07 adopted budget. The operating budget is categorized by major service area (MSA). Six MSAs that represent the key businesses of the City have been identified. The graph on this page shows the operating budget for each of the MSAs.

Total funding allocated for the Policy and Leadership Group for 2007-08 is \$4.7 million. This MSA encompasses all elected officials and the chief executive offices for the City. These include the offices of City Council, City Manager, Communication, City Clerk, City Attorney, and City Treasurer.

The Administrative Services MSA, with a budget of \$17.3 million, includes finance, records management, human resources, purchasing, information technology, health insurance, risk management, and workers' compensation. These areas mainly provide services to internal City departments.

Public Safety services are funded at \$43.3 million and include all of the police and fire programs such as police patrol, vice/narcotics, juvenile diversion and DARE programs, fire prevention, emergency operations, and disaster preparedness.



Community Development, with a budget of \$17.4 million, provides the services that guide and oversee the planning and development of Carlsbad as depicted in the City's General Plan. The General Plan is the base document that expresses the goals and public policy relative to future land use. It acts as a "constitution" for development and is the foundation upon which all land use decisions are based. Also included under Community Development are the housing and redevelopment programs.

Community Services, with a budget of \$17.9 million, is made up of the library, recreation, cultural arts, and seniors programs. These programs are provided to a wide range of people and assist in their education and cultural development.



The service area requiring the largest amount of funds is Public Works, with a budget of \$74.4 million. Public Works is responsible for the building and maintenance of all of the City's infrastructure and facilities and for the provision of utility services. It is comprised of the engineering, parks, streets, facilities, fleet, water, and sewer departments.

The Non-Departmental and Contingency accounts total \$12.1 million and include programs benefiting the City as a whole such as community promotions, community contributions, assessment services, transfers to other funds, and Council's contingency account. Included in the non-departmental group is a \$7.9 million transfer to the Infrastructure Replacement Fund. This program sets aside funds for the replacement of the City's base infrastructure. The contingency account, which is available to Council for emergencies and unforeseen program needs that arise during the year, is budgeted at \$2.2 million. The contingency account amounts to 2.0% of the FY2007-08 General Fund budget.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

STAFFING

The FY 2007-08 Operating budget includes 22 new full-time employees: 5 are to enhance Public Safety, 1 in the Geographic Information Systems Department which will improve the level of service, 1 in Public Works to manage the increased number of information systems in the Public Works Department, 1 new Building Maintenance Worker to maintain the new facilities opening in FY 2007-08, 2 are related to a conversion of part-time personnel into full-time personnel to improve effectiveness in the Police and Public Works departments, 1 limited term employee in Human Resources to assist in recruiting, 1 Cross Control Technician to be utilized in Sewer and Water, 1 new traffic engineer and 9 new employees related to new legal mandates for Storm Water and Wastewater programs. The net decrease in hourly staff totaled approximately 3.78 full-time equivalents (FTE). These changes result in a City workforce of 711 full and three-quarter time employees and 140.34 hourly FTE. The staffing changes in each of the City's programs are discussed more fully in the Operating Budget Overview.

CAPITAL IMPROVEMENT PROGRAM

The City of Carlsbad's Capital Improvement Program (CIP) is a long-range planning document, which outlines the expenditure plan for current and future capital projects and the corresponding revenues to pay for those expenditures. Projects in the CIP consist primarily of new construction or major maintenance and replacement of City facilities such as parks, roads, civic facilities such as libraries, police and fire stations, and sewer, water, and drainage facilities. The Capital Improvement Program for 2007-08 totals \$32.8 million in new appropriations and an estimated \$150.7 million in continuing appropriations. Some of the notable capital projects include the following:

Park Development

- The **Alga Norte Park and Aquatic Center** consists of 30 acres in the Southeast Quadrant with planned amenities that include ball fields, soccer fields, picnic areas, tot lots, a skate park, a dog park, restrooms, parking facilities, and an aquatic center. The aquatic center will include a 50-meter competition pool, a 12-lane instructional pool and a therapy pool as well as a water play area with slides. A swimming pool complex was one of the projects approved by the voters through Proposition C in 2002. The total cost of the park is estimated to be \$22.1 million. The total cost of the aquatic center is estimated to be \$28.3 million. At this time, construction is scheduled to start in the winter of 2007. Construction will take approximately 2 years.
- The construction is complete on the City's new 18-hole golf course, **The Crossings at Carlsbad**. The golf course opened in the summer of 2007 and is located along the north side of Palomar Airport Road at Hidden Valley Road.



CITY OF CARLSBAD BUDGET HIGHLIGHTS

The estimated cost for construction and start-up expenses are \$55 million. The championship caliber public golf course is 6,835 yards and includes a 28,000 sq. ft. clubhouse and a practice center. Half of the 400-acre site will be preserved for habitat and will help tie together more than 1,000 acres of Open Space in the central part of the City. The City has contracted with Kemper Sports Management (KSM) for operations of the course.



- A 20,000 square foot community facility and gymnasium is planned for the **Pine Park Community Center**. The facility will include basketball, volleyball, gymnastics, multi-purpose rooms, meeting rooms, a teen center and office space. Design of this \$9.4 million facility is expected to begin in FY 2009-10 and construction is still scheduled to begin in FY 2010-11.
- Phase II of this 42-acre **Poinsettia Park Community Center** includes amenities such as a community facility/gymnasium, enclosed soccer field, tot lot, picnic areas, tennis complex including a clubhouse and stadium court and additional parking. The total cost is expected to be approximately \$12.5 million and the project is scheduled to start in FY 2010-11.
- **Poinsettia Tennis Courts** – Plans are currently underway to build seven tennis courts with lighting at the Poinsettia Park. The facility will also receive additional parking and construction is scheduled to begin in FY 2008-09. The estimated cost of the Tennis Courts and Parking is \$2.1 million.

Civic Projects

- The **Public Works Center** will include offices, shops, a yard, warehouse and parking to accommodate the Public Works Department. Initial estimates put the cost at approximately \$27.3 million.
- The **Safety Training Center** project was authorized under Proposition C, which was approved in 2002. Preliminary design work is currently underway. In addition to a shooting range, the facility may include a fire training tower, residential training prop, and a fire administration building with classroom and storage facilities. There is currently \$950,000 budgeted for design only. Once the design is complete the construction budget will be developed and funding sources will need to be identified.
- The **Library Learning Center** will provide a permanent location for the Adult Learning and the Centro de Información programs. The existing building adjacent to Holiday Park will be remodeled and a second story, approximately 5,000 square feet, will be added for a total cost of \$6.1 million.

CITY OF CARLSBAD BUDGET HIGHLIGHTS



- **Fire Station No. 6 Relocation** – Fire Station No. 6 is currently located in a temporary facility in the southeast quadrant of Carlsbad. The relocation of this station to a new 6,200 square foot permanent facility along the east side of Rancho Santa Fe Road is progressing and a contract has been awarded for construction. Total cost is approximately \$5.8 million. This fire station is required to help ensure a five-minute response time within the southeast part of the City as development in that area occurs.

Streets

- The **Faraday Avenue and Melrose Drive Extensions** east of El Camino Real encompasses the extension of Melrose Drive from Palomar Airport Road to the Carlsbad/Vista city limits and the extension of Faraday Avenue from Orion Way to Melrose Drive in Vista. The project will include the reconstruction of a portion of existing Melrose Drive in the City of Vista and the construction of a bridge over the Agua Hedionda Creek along Faraday Avenue. This project is being built by the developers in the area and reimbursed from the proceeds of a bond issue. The formation of a Community Facilities District was completed in FY2005-06 and it will be the mechanism for the repayment of the debt.
- The **Widening of El Camino Real from Tamarack to Chestnut** will add an outside lane to widen the street to full prime arterial road standards. The project will include curb, gutter, sidewalk, pavement and streetlights. The total cost of the project will be \$3.3 million and the project will start in FY 2007-08.
- The **Pavement Management Program** helps insure that the City's streets can last a lifetime if they are properly maintained. Applying seals and overlays when roadways are beginning to show signs of distress can minimize the more expensive repair/reactive maintenance activities. The proactive approach consists of the scheduled application of a seal or overlay once every seven years. By using the proactive approach the City can efficiently maintain over 330 miles of public roadways at an annual cost of approximately \$3.4 million.
- The **Concrete Repair Program** is a companion program to the pavement management program. It will insure that curbs, gutters and sidewalks are also properly maintained. By allocating the funding, both pavement and concrete replacements can be accomplished at the same time. This will help maximize efficiencies and reduce inconvenience to the citizens. There is \$350,000 budgeted in FY 2007-08 for this program.

Sewer, Water, and Drainage Facilities

- Reaches 1, 2, 3, 11, 13 to 15, and the Agua Hedionda lift station of the **Vista/Carlsbad Interceptor** are scheduled over the next five years. These projects are required to handle buildout flows and replace deteriorated pipelines. The projects are predominantly funded by the City of Vista, depending on the project, the City of Vista's share of the costs are between 60% - 90% of the total project cost. The total estimated costs for all of the projects are approximately \$29.7 million.



CITY OF CARLSBAD BUDGET HIGHLIGHTS

- Several major **water lines** are scheduled for construction within the next five years:
 - Carlsbad Boulevard – south of Avenida Encinas
 - College Boulevard – various sections
 - Faraday Avenue extension
 - Melrose Drive from Palomar Airport Road to Faraday

DEBT MANAGEMENT ISSUES

The use of debt has always been a primary issue in the development of the Capital Improvement Program and the policies to implement the Growth Management Program. Over the years, the City has issued millions of dollars of bonds and Certificates of Participation (COPs) to fund streets, buildings, sewer and water facilities, open space acquisitions, and other infrastructure projects. The City is continually evaluating its outstanding debt as well as potential future issues to ensure that interest costs are kept at a minimum and the use of the bond funds is appropriate.

The table on the following page identifies the debt the City has issued, the outstanding principal, the 2007-08 principal and interest payments, and the scheduled year of payoff.

Of the approximately \$120 million of debt outstanding, only \$1.4 million will be paid back with General Fund monies. Annual debt service payments from the General Fund average approximately \$750,000. The remaining debt will be repaid from water and sewer revenues and from property owners benefiting from the improvements built with bond proceeds. The City has no obligation to advance funds to the Assessment districts if the property owners do not pay.

SUMMARY

The City of Carlsbad continues to fare well from an economic viewpoint. It is evident that the planning and foresight by the City Council and residents have provided a sound economic base for the City. The increased job opportunities from the development of the industrial and commercial areas, as well as Carlsbad's reputation as a quality City, are keeping the demand for housing growing, which in turn increases the property tax base. The continued opening and expansion of the commercial ventures enhances Carlsbad's standing as a destination resort and gives it the revenues needed to provide quality services to the citizens and businesses. All of these events add to the diversity and strength of Carlsbad's economic base, which will provide the funding for additional services needed to maintain the quality of life in Carlsbad.

The challenges for the future will revolve around changing from a developing City to a fully built City; it will be about managing costs while continuing to look for appropriate revenue streams sufficient to pay for the services desired by the citizens. This year's budget reflects the anticipated achievement of Council's vision and goals for the City. It allocates the available funding in a manner that proactively plans for the future. This plan will provide top-quality services to all who live, work, and play in Carlsbad.

CITY OF CARLSBAD BUDGET HIGHLIGHTS

The following Table identifies the debt the City has issued, the outstanding principal, the 2007-08 principal and interest payments, and the scheduled year of payoff.

City of Carlsbad Debt Outstanding						
Bond Name	Repayment Source	Original Bond Issue	Outstanding Principal At 6/30/07	2007/08 Payment P&I	Final Payment FY	
Carlsbad Public Financing Authority Bonds						
Certificates of Participation	Revenue Bonds	\$ 18,540,000	\$ 18,540,000	\$ 827,050	2036	
1997 Hosp Grove Refunding						
Certificates of Participation	General Fund	\$ 6,595,000	\$ 1,435,000	\$ 750,645	2009	
1996 Refunding Encina JPA						
Tax Allocation Bonds	Sewer Enterprise Redevelopment	\$ 11,080,000	\$ 6,125,000	\$ 935,506	2014	
1993 Redevelopment						
Tax Allocation Bonds	Redevelopment	\$ 15,495,000	\$ 11,645,000	\$ 1,041,665	2024	
CFD #3 2006						
Special Tax Bonds	Special District	\$ 11,490,000	\$ 11,490,000	\$ 761,079	2036	
Subtotals		\$ 63,200,000	\$ 49,235,000	\$ 4,315,945		
2005 Poinsettia Lane East						
	Assessment District	\$ 33,085,000	\$ 32,495,000	\$ 2,142,174	2035	
2003 College Boulevard-Cannon Road						
	Assessment District	\$ 11,760,000	\$ 11,395,000	\$ 834,316	2034	
1997 Reassessment District						
College & Alga	Assessment District	\$ 18,475,000	\$ 3,785,000	\$ 1,390,406	2012	
1997 Carlsbad Ranch						
	Assessment District	\$ 10,175,438	\$ 7,455,000	\$ 877,559	2023	
1998 Rancho Carrillo						
	Assessment District	\$ 19,600,000	\$ 16,145,000	\$ 1,557,158	2028	
Subtotals		\$ 93,095,438	\$ 71,275,000	\$ 6,801,613		
Totals		\$ 156,295,438	\$ 120,510,000	\$ 11,117,558		

BUDGET SUMMARY

FISCAL YEAR 2007-08

PROGRAM AREA	PROJECTED BALANCE JULY 1, 2007	ESTIMATED REVENUES	ADOPTED BUDGET	FUND TRANSFERS	PROJECTED BALANCE JUNE 30, 2008
OPERATING BUDGET					
Policy / Leadership Group			\$4,686,287		
Administrative Services			17,253,446		
Public Safety			43,405,853		
Community Development			17,473,189		
Community Services			17,446,685		
Public Works (including utilities)			74,791,017		
Non Departmental & Contingencies			12,022,300		
Golf Course					
SUBTOTAL OPERATING	\$125,891,151	\$190,057,479	\$187,078,777	\$0	\$128,869,853
CAPITAL IMPROVEMENT PROGRAM					
Fiscal Year 2007-08	\$391,519,970	\$44,004,785	\$32,840,779		\$402,683,976
2006-07 Continuing Appropriations					(150,714,569)
					\$251,969,407
TOTAL OPERATING AND CAPITAL	\$517,411,121	\$234,062,264	\$219,919,556	\$0	\$380,839,260

FISCAL YEAR 2006-07

PROGRAM AREA	PROJECTED BALANCE JULY 1, 2006	ESTIMATED REVENUES	ESTIMATED EXPENDITURES	FUND TRANSFERS	PROJECTED BALANCE JUNE 30, 2007
OPERATING BUDGET					
Policy / Leadership Group			\$4,227,935		
Administrative Services			17,281,780		
Public Safety			40,850,064		
Community Development			16,407,442		
Community Services			16,733,946		
Public Works (including utilities)			68,721,326		
Non Departmental & Contingencies			13,664,955		
Golf Course				(7,886,174)	
SUBTOTAL OPERATING	\$132,638,770	\$179,026,003	\$177,887,448	(\$7,886,174)	\$125,891,151
CAPITAL IMPROVEMENT PROGRAM					
Fiscal Year 2006-07	\$349,484,932	\$148,016,870	\$113,868,006	\$7,886,174	\$391,519,970
TOTAL OPERATING AND CAPITAL	\$482,123,702	\$327,042,873	\$291,755,454	\$0	\$517,411,121

PERSONNEL ALLOCATIONS FOR 2006-07 AND 2007-08

MAJOR SERVICE AREA	FINAL BUDGET 2005-06	FINAL BUDGET 2006-07	FINAL BUDGET 2007-08	2007-08 REQUESTED CHANGES
POLICY AND LEADERSHIP GROUP				
CITY COUNCIL	1.00	1.00	1.00	0.00
CITY MANAGER	6.00	7.00	7.00	0.00
COMMUNICATIONS	2.75	3.75	3.75	0.00
CITY TREASURER	0.75	0.75	0.75	0.00
CITY ATTORNEY	7.00	7.00	7.00	0.00
ADMINISTRATIVE SERVICES				
ADMINISTRATION	2.00	2.00	2.00	0.00
RECORDS MANAGEMENT	8.00	8.00	8.00	0.00
INFORMATION TECHNOLOGY	16.00	19.00	19.00	0.00
FINANCE	27.00	28.00	28.00	0.00
RISK MANAGEMENT	2.00	2.00	2.00	0.00
HUMAN RESOURCES & WORKERS COMP	10.00	10.00	10.00	0.00
PUBLIC SAFETY				
POLICE	151.00	157.00	162.00	5.00
FIRE	79.75	87.75	88.75	1.00
COMMUNITY DEVELOPMENT				
COMMUNITY DEVELOPMENT ADMINISTRATION	4.00	5.00	3.00	(2.00)
BUILDING & CODE ENFORCEMENT	13.00	13.00	14.00	1.00
ECONOMIC DEVELOPMENT & REAL PROPERTY MGMT	1.00	1.00	2.00	1.00
GEOGRAPHIC INFORMATION SYSTEMS	2.00	3.00	4.00	1.00
PLANNING	24.00	27.00	27.00	0.00
HOUSING AND REDEVELOPMENT	10.00	10.00	10.00	0.00
COMMUNITY SERVICES				
LIBRARY	48.00	48.00	48.00	0.00
CULTURAL ARTS	5.00	5.00	5.00	0.00
RECREATION & SENIOR PROGRAMS	32.50	30.50	30.50	0.00
PUBLIC WORKS				
ADMINISTRATION & ENVIRONMENTAL PROGRAMS	14.20	18.00	22.00	4.00
ENGINEERING SERVICES	51.60	54.00	56.00	2.00
GENERAL SERVICES	91.95	95.25	97.25	2.00
MAINTENANCE & OPERATIONS	49.50	47.00	53.00	6.00
FULL AND 3/4 TIME LABOR FORCE*	660.00	690.00	711.00	21.00

PERSONNEL ALLOCATIONS FOR 2006-07 AND 2007-08 (Continued)

SUMMARY OF REQUESTED LABOR FORCE BY CATEGORY				
	<u>2005/06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>Difference</u>
Full Time Personnel	654.00	684.00	705.00	21.00
3/4 Time Personnel in Full Time Equivalents	6.00	6.00	6.00	0.00
Hourly Full Time Equivalent Personnel	147.47	144.12	140.34	(3.78)
TOTAL LABOR FORCE*	807.47	834.12	851.34	17.22 *

LIMITED TERM EMPLOYEES				
	<u>2005/06</u>	<u>2006-07</u>	<u>2007-08</u>	<u>Difference</u>
Management Interns	1.50	1.50	1.50	0.00
Legal Intern	0.50	0.50	0.50	0.00
Building Inspector Intern	0.00	0.00	0.00	0.00
Management Analyst (HR)	0.00	0.00	1.00	1.00
Division Chief Overstaff	0.00	0.00	0.00	0.00
Building Inspector Limited Term	2.00	2.00	2.00	0.00
GIS Intern	0.50	0.50	0.50	0.00
Associate Planner	0.00	0.00	1.00	1.00
Planning Technician Intern	1.00	1.00	0.00	(1.00)
TOTAL LIMITED TERM EMPLOYEES	5.50	5.50	6.50	1.00

* The 2006-07 headcount adopted by City Council on June 20, 2006 was 827.12. There were 7 mid year adjustments approved by Council